

Message Text

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C O N F I D E N T I A L LONDON 16585

LIMDIS GREENBACK

E.O. 11652: XGDS-1
TAGS: EFIN, UK
SUBJECT: HMTREASURY ON HIGHLIGHTS OF IMF/IBRD MEETINGS.

1. TREASURY ATTACHES CALLED ON KEN COUZENS, SECOND PERMANENT SECRETARY, OVERSEAS FINANCE, IN HMTREASURY, FOR A DEBRIEFING ON THE LATTER'S IMPRESSIONS OF THE IMF/IBRD MEETINGS. COUZENS THOUGHT THAT THE US AND UK POSITIONS WERE REMARKABLY SIMILAR ON MOST QUESTIONS. THE COUNTRIES DID DIFFER SOMEWHAT ON TACTICS HOWEVER. THE UK TOOK THE SAME POSITION IN PUBLIC AS WELL AS IN PRIVATE. (CHANCELLOR HEALEY IS CONSTITUTIONALLY DISPOSED TO THIS.) THIS WAS MOST EVIDENT IN THE CASE OF HEALEY'S COMMENTS ON POOR JAPANESE AND GERMAN GROWTH PERFORMANCE IN 1977.

THE JAPANESE ACTUALLY COMPLAINED ABOUT THE MILD BRITISH STATEMENT. THE AMERICANS (HE NOTED JOCLARL WERE INCLINED TO SPEAK LESS STRONGLY IN PUBLIC, THEN WORK THE JAPANESE OVER "WITH LEAD PIPES" IN PRIVATE. COUZENS FELT IN THE LAST ANALYSIS, THE GERMANS COULD POS-
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SIBLY BE MOVED TO ACCEPT THEIR INTERNATIONAL OBLIGATION. HE WAS LESS SURE OF THE JAPANESE.

2. COUZENS INDICATED THAT HMT WAS SATISFIED WITH ITS EXCHANGE RATE POLICY AND THAT THE POLICY HAD CLEARLY BEEN APPROVED BY THE IMF AND WITTEVEEN EXPLICITLY. HE SAID THAT UK RESERVES MINUS FOREIGN DEBT WERE SMALLER IN PRO-

PORTION TO IMPORTS THAN THEY WERE IN 1970-1971 IN REAL TERMS. THIS MEASURE OF RESERVE ADEQUACY APPARENTLY IMPRESSED THE IMF. FURTHER IMF DRAWINGS WILL NOT BE NECESSARY, AS THE CHANCELLOR HAS INDICATED IN GENERAL TERMS, BUT AS YET NO OFFICIAL ANNOUNCEMENT TO THAT EFFECT HAS BEEN MADE. NEXT ROUND OF IMF NEGOTIATIONS IS NOW SCHEDULED FOR THIRD WEEK IN NOVEMBER.

3. PART OF THE UK'S LARGE CAPITAL INFLOW OBVIOUSLY REFLECTS THE WEAKNESS OF THE DOLLAR. THE UK ACCEPTS THE ROLE THAT THE US HAS ASSUMED IN RUNNING A LARGE DEFICIT, AND RECOGNIZES, AS THE CHANCELLOR'S IMF SPEECH CLEARLY STATED, THAT THE DEFICIT AROSE IN THE MAIN FROM THE WEL-COME EXPANSION OF THE US ECONOMY. HE WAS NEVERTHELESS CONCERNED THAT THE LEVEL OF THE TRADE DEFICIT AND A PLUNGING DOLLAR MIGHT PROMOTE PROTECTIONIST PRESSURES IN THE US. THE UK DESIRES FOREIGN EXCHANGE MARKET STABILITY. IDEALLY, HE WOULD PREFER TO SEE THE DOLLAR REMAIN STABLE IN FOREIGN EXCHANGE MARKETS, WITH OTHER COUNTRIES NOT WORRYING ABOUT THE US DEFICIT.

4. COUZENS BELIEVES IMF QUOTA INCREASES OF 50 PERCENT APPEAR THE MOST LIKELY OUTCOME. THE GERMANS HAVE ACCEPTED A 50 PERCENT INCREASE WITH, IN EFFECT, A PROVISIO FOR ADDED CONDITIONALITY. HE FEELS THAT IT WILL BE DIFFICULT FOR THE GERMANS TO RETREAT FROM THE 50 PERCENT

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FIGURE, BUT DOUBTS THE CONDITIONALITY PROVISIONS CAN BE NEGOTIATED. MANY INDUSTRIALIZED COUNTRIES AS WELL AS LDC'S WANT AT LEAST 50 PERCENT. AS A RESULT, HE BELIEVES THERE SHOULD EMERGE BEFORE THE NEXT INTERIM COMMITTEE MEETING A "EUROPEAN CONSENSUS" ON THE 50 PERCENT FIGURE.

5. IN REPLY TO A QUESTION, COUZENS WAS SKEPTICAL THAT MUCH MORE OBVIOUS PROGRESS ON AVAILABILITY OF INFORMATION COULD BE MADE BETWEEN THE IMF AND COMMERCIAL BANKS. UK DID NOT OBJECT AT ALL TO THE CONCEPT, WILL BE HAPPY TO DISCUSS IT FURTHER, BUT SIMPLY DID NOT BELIEVE LDC'S WOULD AGREE TO IT. ACCEPTANCE BY A COUNTRY OF IMF CONDITIONALITY USUALLY CARRIES IN ITS WAKE GREATER ACCESS TO COMMERCIAL BANKING FUNDS. THIS WILL PROBABLY CONTINUE TO BE THE CASE.

6. COUZENS PRAISED US-UK-FRENCH COOPERATION DURING THE SESSIONS. ON SOME POINTS, HE FOUND CANADIAN POSITIONS AMBIVALENT AND CONFUSING; THEY HAD NOT APPARENTLY REACHED A DECISION IN THEIR OWN MINDS ON THE ACCEPTABLE DOMESTIC TRADEOFF BETWEEN INFLATION AND UNEMPLOYMENT.

7. PLEASE TREAT AS NOFORN BREWSTER

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